

**State of Rhode Island
Drinking Water State Revolving Fund**

Program Evaluation Report

**SFY 2022
(7/1/21 – 6/30/22)**

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I. INTRODUCTION

The Drinking Water State Revolving Fund (DWSRF) program was created in 1996 to assist public water systems in financing the costs of infrastructure needed to achieve and/or maintain compliance with and protect public health objectives of the Safe Drinking Water Act (SDWA). Section 1452 of the SDWA requires EPA to conduct an Annual Review to assess the State's progress in the implementation of its DWSRF program. The ultimate objective of the Annual Review is to ensure the program is designed and operated to provide ongoing assistance for drinking water activities while achieving the intent of the SDWA Amendments.

On November 15, 2021, President Biden signed the Bipartisan Infrastructure Law (BIL), also known as the Infrastructure Investment and Jobs Act (IIJA) or 2021, (P.L. 117-58). The BIL appropriates more than \$43 billion to be administered through the existing CWSRF and DWSRF programs from federal fiscal years (FFYs) 2022 through 2026. During these fiscal years, the BIL created three annual appropriations in addition to the base DWSRF program:

- DWSRF General Supplemental,
- DWSRF Emerging Contaminants, and
- DWSRF Lead Service Line Replacement.

The BIL additionally made amendments to the SDWA Section 1452: reauthorized the DWSRF program at elevated amounts from FY 2022 through 2026, expands allowable forms of SDWA 1452(d) Disadvantaged Additional Subsidy, raises minimum SDWA 1452(d) Disadvantaged Additional Subsidy floor from 6% to 12%, made permanent the American Iron & Steel procurement requirements and added the Build America, Buy America procurement requirements.

This document, the Program Evaluation Report (PER), summarizes EPA's Annual Review of the Rhode Island DWSRF program for the period of SFY 2022 (7/1/21 – 6/30/22) and will serve as the basis for actions taken by the State and as a point of future reference for the Region. The Annual Review took place 1/31/2023 – 2/02/2023 and was conducted in accordance with EPA's Annual Review Guidance, including a document review, discussions with state staff, and completion of nationally standardized programmatic, financial, and project file checklists.

II. PRE-ONSITE REVIEW

EPA reviewed the following documents prior to beginning the Review: Operating Agreement, Annual Report, State Environmental Review Process (SERP), Intended Use Plan (IUP), Independent Audit Report, Drinking Water SRF Data System Reports, Single Audit Report, Set-Aside Workplans, Federal Financial Accountability and Transparency Act (FFATA) Reports, and Compass Reports. This document review provided the information necessary to answer some of the questions in the Annual Review Checklist developed by EPA Headquarters and to complete the sections below.

a. Awards to Date and Summary DWSRF Statistics

The Rhode Island Infrastructure Bank (Bank) received their FFY 2021 DWSRF capitalization grant for \$11,100,000 during SFY 2022. As of June 30, 2022, EPA has awarded the Bank an amount of \$246,377,500 in DWSRF funding since the inception of the DWSRF program.

The pre-review provided EPA with a snapshot of the program's financial status, allowing EPA to determine compliance with binding commitment and small systems assistance requirements.

Key SFY 2022 and cumulative information on the program is listed in Table 1. Summary annual and cumulative statistics for Rhode Island's DWSRF program..

Table 1. Summary annual and cumulative statistics for Rhode Island's DWSRF program.

	SFY 2022	Cumulative as of 6/30/2022
Total State Match ¹	\$2,220,000	\$43,745,900
Repayments (principal and interest) ²	\$31,177,246	\$295,911,019
Interest Earnings on Investments ³	\$424,842	\$24,310,364
Bond Proceeds ⁴	\$0	\$286,888,976
Income from Fees ⁵	\$1,631,777	\$18,312,794
<u>Binding Commitments:</u>		
Number of Agreements ⁶	3	101
Dollar Amount ⁷	\$19,445,062	\$619,665,321
Amount in Excess of Required Commitments		\$406,224,441
<u>Small Systems Assistance:</u>		
Number of agreements ⁸	2	42
Dollar Amount ⁹	\$1,261,976	\$35,836,101
Percent of Assistance Provided ¹⁰	6.5%	5.8%
<u>Subsidy:</u>		
Number of Agreements ¹¹	0	31
Dollar Amount (Subsidy portion only) ¹²	\$361,975	\$15,487,194

Action Item: Update the RI DW NIMS data during the 2023 open period to reflect the number of assistance agreements receiving additional subsidy or provide an explanation for the figures in SFY2022. The annual report included information about project receiving additional subsidy but the NIMS data is still incorrect. **This is a repeat finding.** Notify the project officer of the updates by September 1st, 2023.

For 2014 – 2017, the NIMS data is showing that the Annual Dollar Amount of Principal Forgiveness (line 191) is \$0, for 2018 it is listed as \$1, and 2019 and 2020 it is listed as \$2. For 2018, 2019, and 2020 the NIMS data is showing that the Annual Number of Assistance Agreements with Subsidy (line 193) is 0. This data does not match what has been reported in the OWSRF data system or what was reported in the 2022 RI DWSRF Annual Report.

¹ DWNIMS lines 34 and 35, respectively.

² DWNIMS lines 283 and 286, respectively.

³ DWNIMS lines 296 and 297, respectively.

⁴ DWNIMS lines 252 and 260, respectively.

⁵ DWNIMS lines 303 and 304, respectively.

⁶ DWNIMS lines 135 and 136, respectively.

⁷ DWNIMS lines 129 and 130, respectively.

⁸ Annual value is the sum of DWNIMS lines 144, 145 and 146. Cumulative from "dwcsizereg" report.

⁹ Annual value is the sum of DWNIMS lines 137, 138 and 139. Cumulative from "dwcsizereg" report.

¹⁰ Annual value is the sum of DWNIMS lines 137, 138 and 139, divided by DWNIMS line 142. Cumulative from "dwcsizereg" report.

¹¹ DWNIMS lines 193 and 194, respectively.

¹² DWNIMS lines 191 and 192, respectively.

Action Item: Update the RI DW NIMS data during the 2023 open period to reflect the amount of additional subsidy given to assistance recipients in years 2014 – 2022. **This is a repeat finding.** Notify the project officer of the updates by September 1st, 2023.

Of the \$246,377,500 awarded, \$189,634,340 went to projects and the remaining \$56,743,160 went to set-aside activities. A summary of set-aside obligations and balances can be found in Table 2.

Table 2. Set-Aside amounts obligated, expended and reserved as of June 30, 2022.

	4% Admin.	2% Technical Assistance	10% State Program Management	15% Local Assistance
Total Amount Obligated	\$8,264,503	\$3,936,850	\$20,246,217	\$24,295,590
2022 Amount Expended	\$394,665	\$274,566	\$986,502	\$1,319,567
Total Amount Expended	\$7,351,901	\$3,664,071	\$19,027,556	\$22,152,496
Balance as of 6/30/2022	\$912,602	\$272,779	\$1,218,661	\$2,143,094
Reserved Authority	\$1,590,677	\$990,740	\$3,700,620	N/A

b. Financial Indicators¹³

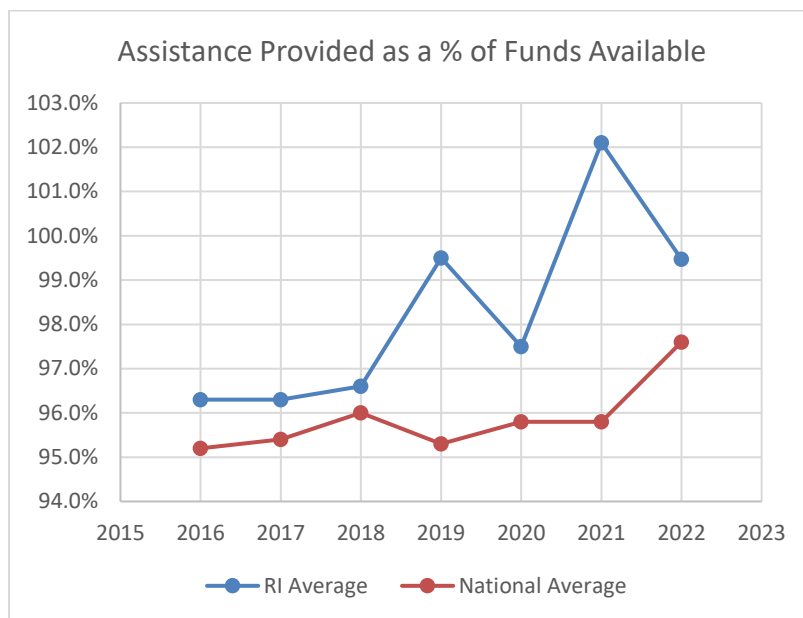
Many of the indicators are incorporated into the Government Performance and Results Act (GPRA) annual performance goals for the DWSRF program. These financial indicators are tools which help us understand and assess a State's SRF program within our Region and are calculated using the data which the State provides in the DWSRF Data System report each year.

The **Assistance Provided as a Percent of Funds Available** indicator measures the dollar amount of executed loan agreements to the cumulative dollar amount of funds available for loans. It is one indicator which measures the **Pace** of the program, by gauging how quickly funds are made available to finance DWSRF projects. This indicator has a wide range of values and can exceed 100% for those states that have adopted an advanced loan approval approach. The advanced loan approach makes use of the lag time between the signing of loan agreements and the disbursement of monies to complete the projects. Rhode Island is proceeding to convert its DWSRF available funds into executed loans at a rate of 99.5%. The fact that Rhode Island has exceeded the national average every consecutive year since 2016 indicates a solid DWSRF program pace. This is evident from the demand for infrastructure financing in the state from water utilities, so much so that Rhode Island leverages their program

¹³ Indicators are provided under EPA memoranda: Implementation of DWSRF Financial Indicators dated February 23, 2003 and EPA Memoranda: "Implementation of Additional SRF Financial Indicators" dated April 26, 2018.
https://usepa.sharepoint.com/sites/OW_Work/srf/SRFLibrary/Shared%20Documents/Memos/Implementation%20of%20Additional%20SRF%20Financial%20Indicators.pdf

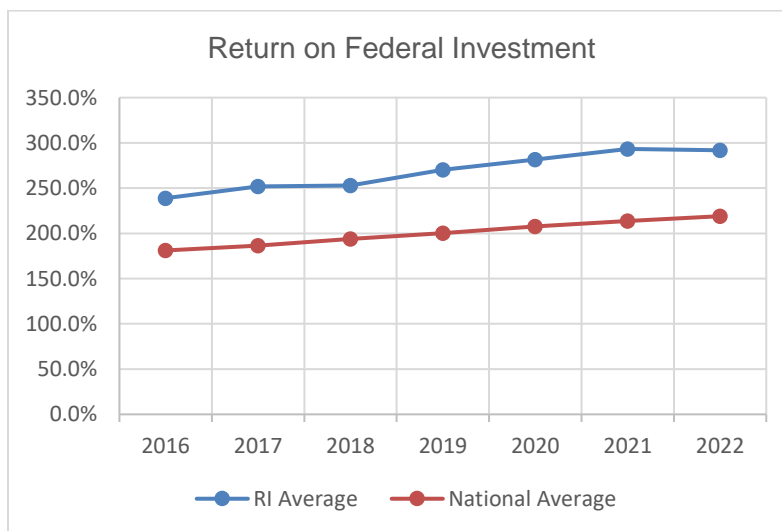
to meet the demand. The decrease experienced in 2022 relative to 2021 was likely a result of no bonds being issued during SFY 2022.

Figure 1. Assistance Provided as a % of Funds Available



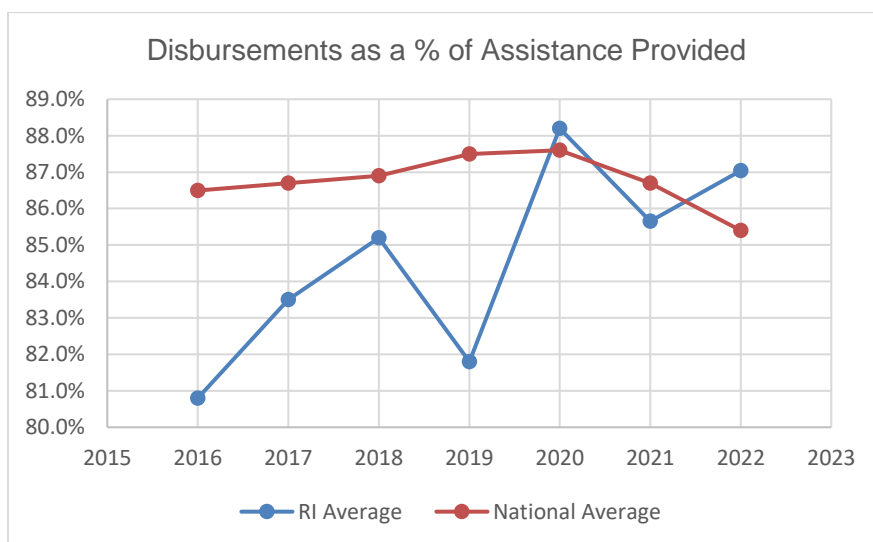
The **Return on Federal Investment** indicator shows how many dollars of assistance were disbursed to eligible borrowers for each Federal dollar spent. The State of Rhode Island is disbursing funds at a rate of 291.7%, which is consistent with last year's value of 293.3%. As indicated in the chart below, Rhode Island has reflected a return on federal investment that has exceeded the National Average for every year shown since 2016. This indicates that for every federal dollar expended, approximately \$2.92 of assistance is disbursed through Rhode Island's DWSRF program.

Figure 2. Return on Federal Investment



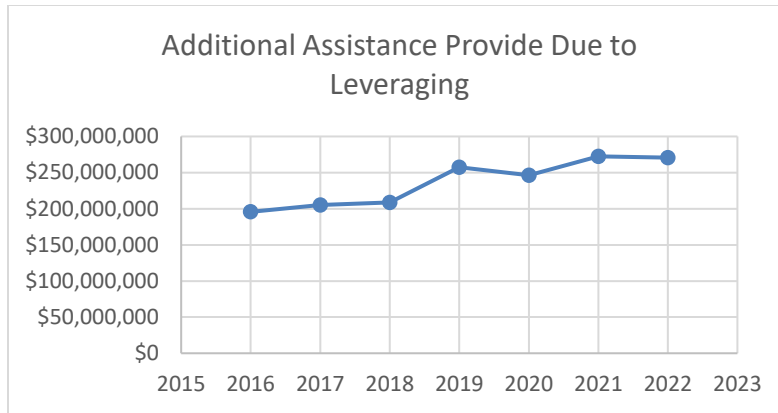
The **Disbursements as a Percent of Assistance Provided** indicator measures the *speed* at which projects are proceeding to completion. This indicator shows the relationship between loan disbursements and the amount of funding provided. This indicator has a wide range of values but should not exceed 100% as that would indicate disbursing funds in excess of the funds committed. Rhode Island is proceeding at a rate of 87%, which is an increase from the value of 85.7% reported last year. As indicated by the chart below, the state of Rhode Island surpassed the National Average this year, reflecting the state's ability to disburse funds in a more expeditious fashion than its peers at the National level. This indicator reflects how efficient Rhode Island's DWSRF program is at disbursing funds to its borrowers, which brings the benefits to the local communities in a timely fashion without creating delayed results that could impact critical water infrastructure service to those who need it most.

Figure 3. Disbursements as a Percent of Assistance Provided



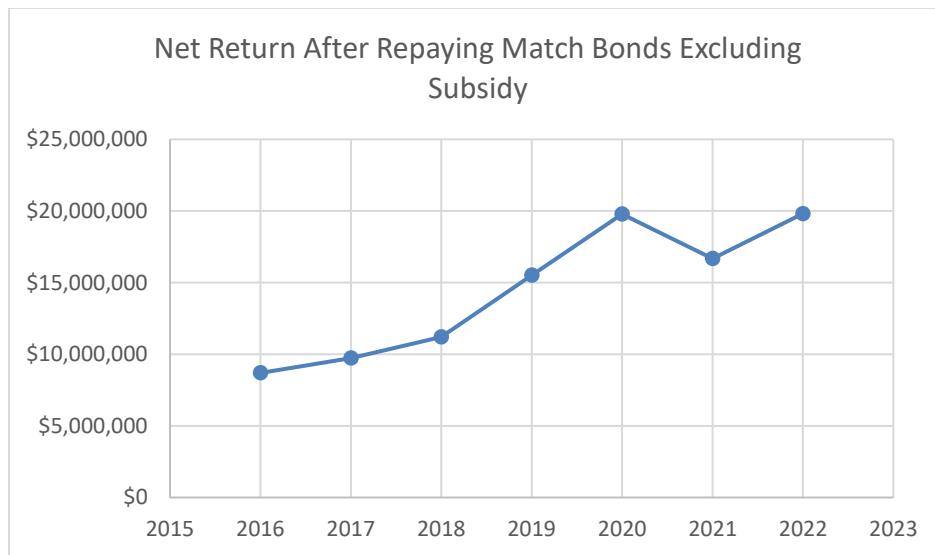
The **Additional Assistance Provided Due to Leveraging** indicator tries to estimate the dollar amount of additional projects which have been funded, that otherwise might not have been funded, had leveraged bonds not been issued. This is done by comparing the cumulative amount of funds available after subtracting out the net funds provided by issuing bonds. Rhode Island funded an additional \$270,676,101 in projects due to leveraging during SFY 2022. This is a slight decrease from last year's value of \$272,483,840 as the state did not issue any bonds in SFY 2022.

Figure 4. Additional Assistance Provided Due to Leveraging



The **Net Return after Repaying Match Bonds Excluding Subsidy** indicator shows the net earnings of the DWSRF after any State Match Bonds are repaid and any Loan Principal is forgiven, thereby showing how well the DWSRF is maintaining its' invested and contributed capital. The indicator is expressed in *dollar* amounts. A positive value indicates that the revenues of the fund are meeting expenses after any state match bonds are repaid and any loan principal is forgiven. Additionally, a positive value shows that the DWSRF is maintaining its contributed capital. Conversely, a negative value indicates that expenses are exceeding revenues after any state match bonds are repaid and any loan principal is forgiven. Rhode Island had a net return of \$19,813,929, as of June 30, 2022. Rhode Island has seen an increase in this metric since last year's value of \$16,674,749, indicative of the program continuing to grow with sufficient capital on hand to keep operations sustainable into the future.

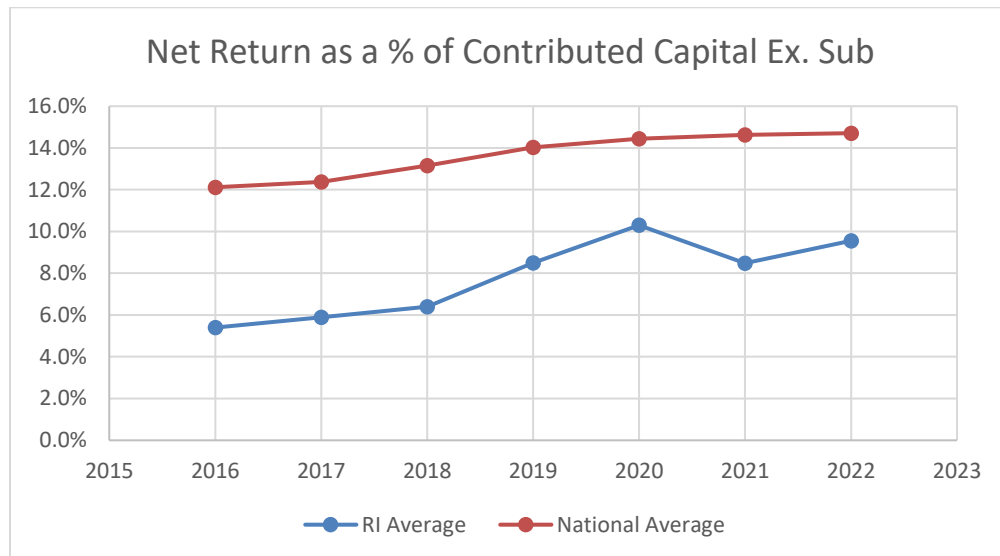
Figure 5. Net Return after Repaying Match Bonds Excluding Subsidy



The **Net Return on Contributed Capital Excluding Subsidy** indicator is expressed as a *percentage* showing the Net Return on the invested/contributed capital after repaying any State Match Bonds and after forgiving any Loan Principal. While the previous financial indicator was expressed in dollar amounts, this financial indicator is expressed as a percentage. This indicator estimates the growth of the DWSRF relative to the investment earnings and to the Federal and State contributed capital. A positive value indicates the Fund's growth, and a negative value

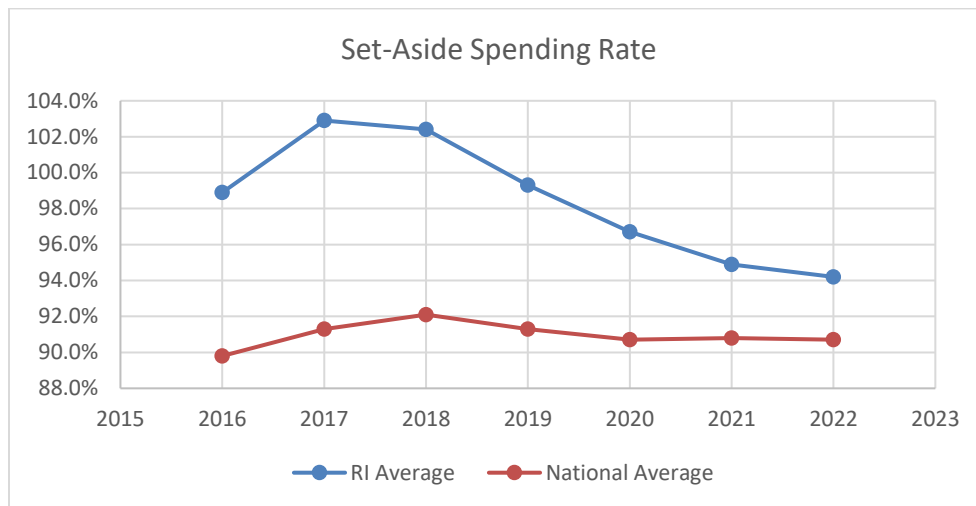
indicates a net loss. As of June 30, 2022, Rhode Island has a net return of 9.6%. As presented below in the chart, the Rhode Island net return has trailed the National average 2016-present. It is worth noting that this metric experienced an increase from last year's value of 8.5%.

Figure 6. Net Return on Contributed Capital Excluding Subsidy



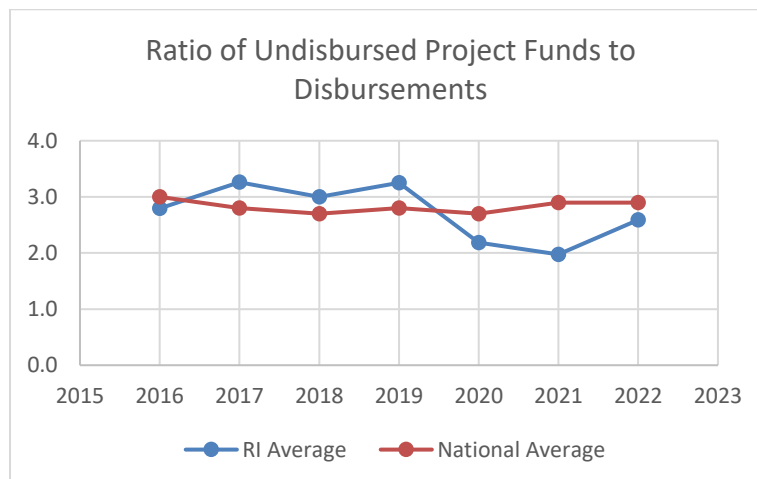
The **Set-Aside Spending Rate** indicator depicts the pace of the state set-aside program by expressing, as a percent, the rate of expenditure of all of the money which has been placed into all of the set-aside accounts. Rhode Island's expenditure rate is 94.2%. This is a slight decrease from the spending rate reported last year of 94.9%. Set-aside spending has been decreasing year after year since 2017. Due to the implementation of BIL, set-aside spending is likely to increase in order to support the needs of the state's DWSRF program. The state should ensure that there are sufficient set-aside funds in place throughout BIL and into the future as it is possible that the unbanked reserve of carryover set-aside funds may not sustainably cover the additional resources as BIL spending ramps up over the coming years. The state's allocation regarding the base capitalization grant has been decreasing over time, resulting in diminished set-aside funds.

Figure 7. Set-Aside Spending Rate



The **Undisbursed Funds to Average Disbursements (Years to Disburse)** evaluates how efficiently SRF funds are revolving (and thus, balancing inflows and outflows) by examining a program's disbursement rate over a set time period and comparing it to the amount of cash on hand. The results of this measure reflect the number of years it would take to spend the cash on hand assuming the future disbursements are consistent with average annual disbursements over the past three years. This new indicator shows that Rhode Island has 2.6 years' worth of undisbursed cash on hand. This indicator shows Rhode Island has been accumulating more cash on hand compared to last year's figure of 2.0. The state should be mindful that this year's value is not far off from meeting or exceeding the National average based on the chart below, indicating an uptick in undisbursed funds. Timely and expeditious use should be emphasized in order to keep undisbursed funds at a minimum.

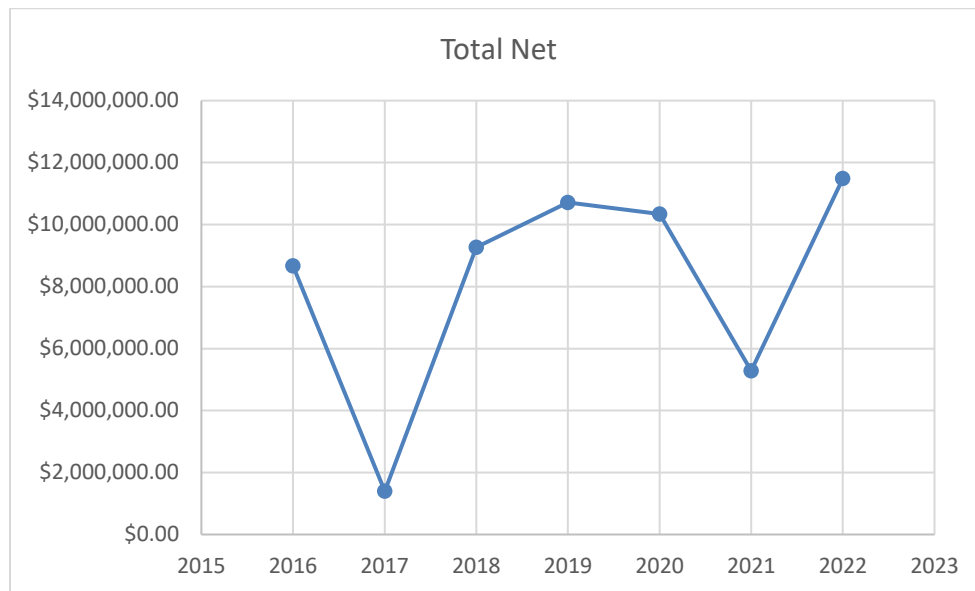
Figure 8. Undisbursed Funds to Average Disbursements (Years to Disburse)



Total Net measures the extent by which internal growth is generating additional funding for new projects. It accomplishes this by taking the total cash inflows generated by ongoing loan and investment activity and subtracting out debt service payments from outstanding match and leveraged bonds. New federal capitalization grants and leveraged bond issues are also

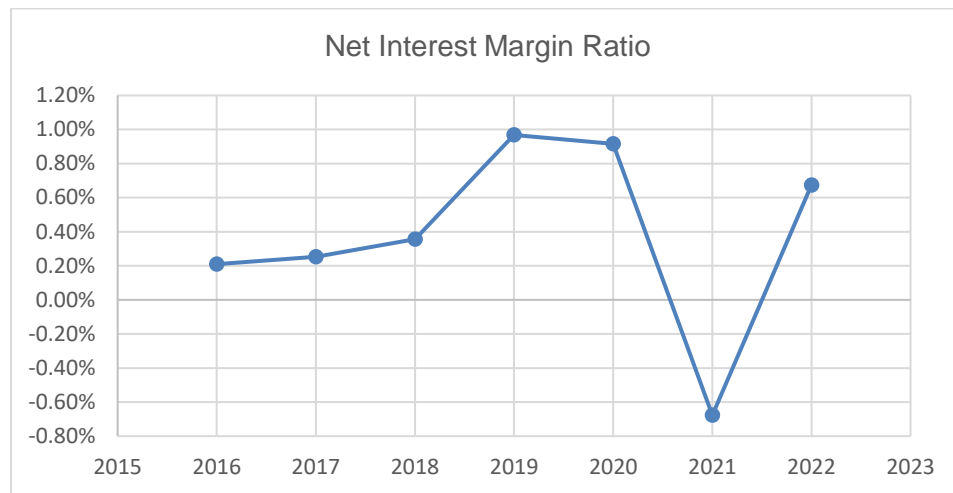
excluded from this calculation. This measure reflects the amount of new annual project funding generated solely from net repayments. Rhode Island's total net is \$11,484,801. This indicates Rhode Island is continuing to grow their program. This is an increase from last year's figure of \$5,281,351 as there was an increase in annual loan interest collected in SFY 2022. The increase experienced is an added benefit to the state's program as these funds can revolve back into new projects, helping the local communities in Rhode Island address environmental and public health concerns relating to drinking water infrastructure.

Figure 9. Total Net



Net Interest Margin measures the net rate of return (as a percentage) the SRF is generating from its Total Assets through loans and investments after accounting for the interest expenses associated with match and leveraged bonds. It differs from the existing Retained Earnings metric because it does not include Match Bond Principal as an expense. Rhode Island's net interest margin is 0.67%. This is a significant improvement over last year's value of -0.68%, likely due to the economic market fluctuations experienced over the past few years as it relates to interest rates. The state did not collect as much loan interest in 2021 as they did in 2022, considering interest rates were low in 2021 in comparison to 2022. Now that interest rates have been rising, the state's SRF program will be more attractive to borrowers as the rate offered will be more competitive than that offered by other lenders.

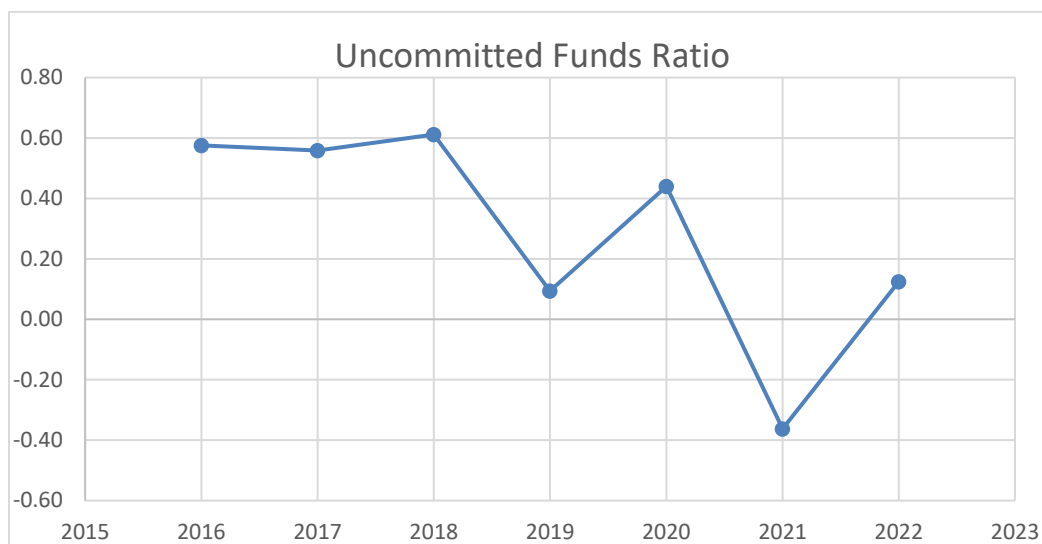
Figure 10. Net Interest Margin



c. Uncommitted Funds

EPA Headquarters has developed a ratio to assist the EPA Regions on assessing the amount of uncommitted funds that a state has at the end of each fiscal year. Uncommitted funds include federal and non-federal funds, repayments, state match, interest earnings, and bond proceeds (when applicable). The ratio is calculated by taking the amount of all available (uncommitted) funds at the end of the fiscal year and determining how many years it would take to draw down that amount based on the average drawdown rate over the last 3 years of disbursements. The unofficial goal is to have a ratio less than 2.0 which represents having less than 2 years of uncommitted funds. As of June 30, 2022, Rhode Island has an uncommitted fund ratio of 0.12. This is well under the recommended ratio of 2.0, which indicates that the state's program has made a commendable effort in maintaining low uncommitted funds. Last year experienced a value of -0.36, likely as a result of the fact that the state engages in a leveraged model with advanced loan commitments made during SFY 2021.

Figure 11. Uncommitted Funds



d. *Unliquidated Obligations*

Unliquidated Obligations (ULOs) are funds that have been awarded or obligated to the state and have not yet been drawn down or used for their intended purposes. For the DWSRF program, this includes both funds that have been reserved for construction projects and funds that have been reserved for set-aside activities.

In an effort to reduce ULOs in the DWSRF program, EPA Headquarters developed a National ULO Reduction Strategy in April 2014. This established a goal to have all capitalization grants fully expended within two years of their award date. As of June 30, 2022, the total ULO for the Rhode Island DWSRF program was \$18,146,976, which is comprised of balances from the 2018, 2019, 2020, and 2021 capitalization grants. Details are shown in Table 3.

Table 3. Rhode Island DWSRF unliquidated obligations (ULOs) as of 6/30/22.

Capitalization Grant	Balance of Funds as of 6/30/22		
	<u>Total</u>	<u>Projects</u>	<u>Set-Asides</u>
FFY 2018	\$183,134	\$183,134	\$0
FFY 2019	\$4,114,982	\$4,003,694	\$111,288
FFY 2020	\$3,121,820	\$2,153,067	\$968,753
FFY 2021	\$10,727,040	\$7,259,946	\$3,467,094
Totals ULOs	\$18,146,976	\$13,599,841	\$4,547,135
Total Obligations (to date)	\$246,379,500	\$188,650,281	\$57,729,219

ULO percentage ¹⁴	7.4%	7.2%	7.9%
Regional Average ULO Percentage	3.9%	3.6%	5.0%
National Average ULO Percentage	3.2%	2.4%	7.1%

ULO goals were discussed during the onsite review. The state ULO percentage is higher than both the Regional and National averages for total, projects, and set-asides. The state had been linking projects to specific capitalization grants which created a ULO problem on the project side even though all 4 open capitalization grants have drawn project funds. Since the projects are being linked to specific grants then the grants are not being drawn with a First-In, First-Out (FIO) approach.

Action Item: Revise policies and procedures relating to the utilization of the FIFO method in closing out older capitalization grants as RI DWSRF still has outstanding balances on the 2018 and 2019 capitalization grants as specific projects have been tied to specific capitalization grants, delaying older capitalization grant close out.

Staffing shortages in the contract office at RI DOH has also slowed down executing contracts and subsequently set-aside spending. Staffing concerns will be discussed under the Conclusions section.

e. Financial Audit

Independent financial audits are conducted annually to determine whether SRF financial statements are presented fairly in conformity with Generally Accepted Accounting Principles (GAAP) as issued by the Governmental Accounting Standards Board (GASB). Additionally, the audit should determine if there are any weaknesses in internal controls with regard to the oversight of SRF funds and if the state is in compliance with respect to laws, regulations and the provisions of SRF capitalization grants.

On September 24th, 2022, Clifton, Larson, Allen, LLP (CLA) issued the “Rhode Island Infrastructure Bank Independent Auditors’ Report” Year Ending June 30th, 2022 of the financial statements and associated notes to the financial statements, that were subsequently revised and re-issued January 25, 2023 due to a finding discovered by the state. The financial audit was conducted on Rhode Island CWSRF and DWSRF programs. Rhode Island Infrastructure Bank (RIIB) received an unmodified opinion on the financial statements for both programs. A material weakness was reported concerning internal control over financial reporting. The finding relates to RIIB not reporting revenue of \$21,915,120 during the Fiscal Year 2022 reporting period tied to an intergovernmental receivable for three-year supplemental state match funds out of the state budget rather than the typical green bond. A subsequent signed Internal Control Management and Board of Directors Letter is present and notes an adjusting entry was made to account for this finding after conferring with the Rhode Island Office of the Auditor General. It was also noted in the Management/Board of Directors Letter that no further remediation is required relating to said individual accounting transaction. The 2022 RIIB Final Single Audit Report was completed by Clifton, Larson, Allen, LLP (CLA) dated March 13, 2023, after the independent auditor (CLA) completed their technical review. RIIB Management agreed with the finding requiring restatement per GASB and GAAP based on subsequent discussion with the Rhode Island Office of the Auditor General. Timely discussions between RIIB and the Rhode

¹⁴ The ULO percentage is calculated by dividing the total ULO dollar amount by the total obligated funds since the inception of the program and multiplying that value by 100.

Island Office of the Auditor General will ensure that future intergovernmental transactions are reported properly in conformance with GASB and GAAP based on the recommendation made by the independent auditor (CLA) within the finalized RIIB Single Audit Report. As mentioned earlier in this section, no additional remedial action is required other than discussing with the external auditor in regards to accounting related matters.

III. FINANCIAL REVIEW

EPA Region 1 Financial Analysts thank state staff for making themselves available for interviews and meetings during the financial review. The information gathered during interviews with state staff was used to complete the Annual Review Checklist and Transaction Testing Worksheet developed by EPA Headquarters. The following sections summarize document reviews and discussions that took place.

a. Transaction Testing

In accordance with the EPA's Oversight Plan, Table 4 shows the 4 cash draws reviewed for the DWSRF program. The DWSRF program has been deemed low risk and therefore there are no selected cash draws by EPA's Office of the Chief Financial Officer (OCFO) to review this fiscal year.

Table 4. Cash draws selected for transaction testing.

Date of Cash Draw	Amount of Cash Draw	Description of Transaction
07/19/2021	\$31,700.00	Loan for \$8,500 and Set-Aside for \$23,000 draw from grant #FS99126019
11/22/2021	\$1,768,184.53	Loan draw from grant #FS99126120
04/06/2022	\$227,906.79	Set-Aside draw from grant #FS99126120
03/25/2022	\$3,169.75	Loan draw from grant #FS99126121

These transactions did not duplicate any of the transactions sampled during previous reviews and all the items appeared to be eligible under the DWSRF program. The back-up documents associated with these payment requests were reviewed in detail to complete the transaction testing worksheets developed by EPA Headquarters. EPA Region 1 found Rhode Island Infrastructure Bank (RIIB) staff to be very cooperative in providing well-organized documentation for the draws requested and answering any questions asked.

Review of the above transactions determined that each cash draw transaction occurred within a timely manner and that there were no improper payments.

b. Proportionality

RIIB has been utilizing the 100% state match proportionality method in drawing down funds to SRF recipients.

c. State Match

State match for Fiscal Year 2022 base and supplemental capitalization grants has been deposited on 06/23/2022 for the amount of \$3,200,800, which is 20% of the \$7,008,000 2022

base capitalization grant and 10% of the \$17,992,000 supplemental capitalization grant necessary for Federal Fiscal Year 2022. The required state match for Federal Fiscal Year 2021 was deposited on 12/08/2021 for the amount of \$2,220,000. RIIB has received future state match up to Fiscal Year 2025 from the state budget and is in the process of proposing the state match up to Fiscal Year 2028 according to the Financial Checklist Meeting with Rhode Island Infrastructure Bank and supported by bank records indicating a deposit for Federal Fiscal Years 2023-2025. Rhode Island Infrastructure Bank receives their state match as an initial lump sum between both CWSRF and DWSRF programs that is then deposited into the trust account at Rhode Island Infrastructure Bank and then internally transferred into a separate account for the DWSRF program. The combined deposit for Federal Fiscal Year 2022 for both the DWSRF and CWSRF programs was received 05/03/2022. Historically, the state match has been sourced through the issuance of General Obligation Bonds as noted in last year's PER.

IV. PROGRAMMATIC REVIEW

EPA Region 1 project officers thank state staff for making themselves available for interviews and meetings during the programmatic review. The information gathered during interviews with state staff was used to complete the Annual Review Checklist and Project File Review Checklist developed by EPA Headquarters. The following sections summarize document reviews and discussions that took place.

a. Project File Reviews

In accordance with the EPA's Oversight Plan, Project File Review Checklists were completed for the following 2 DWSRF projects:

<i>Project Files for this Review</i>	
<i>Foster Glocester Regional School District [FGSD-DW-FY22] Ponaganset High School</i>	<i>\$810,000 Loan Date: 02/02/2022</i>
<i>Charlestown Cedars Mobile Home Park [CCMH-DW-FY21] Water System Improvements</i>	<i>\$936,721 Loan Date: 05/18/2021</i>

Project, construction, and administrative loan files were examined to ensure that projects are managed consistent with federal regulations and policies governing the DWSRF program.

The DOL Davis Bacon requirement was included in both construction contracts that were reviewed but the actual DB wage rates from DOL were not included. For all future projects the wage rates need to be included in the construction contract. It did not appear that either project utilized the de minimis waiver. EPA would recommend including a check box in the state's inspection reports that the project is not planning on using the de minimis waiver and that can be utilized as documentation that a de minimis tracking sheet will not be included in the project file. After the annual review, RI DOH notified EPA that they have added the check box to the inspection template.

Action Item: For all construction projects moving forward, include the DOL wage rates into the construction contract.

All necessary documentation was available for review by the time that EPA began the review and any missing information was promptly provided.

b. *Equivalency*

Rhode Island applies equivalency to the following requirements:

1. Federal Financial Accountability and Transparency Act (FFATA)

All other equivalency requirements including federal crosscutters, Disadvantaged Business Enterprise, signage, telecommunications prohibition, and the federal flood risk management standard are applied to all DWSRF projects, regardless of source of funding.

c. *FFATA Reporting*

FFATA applies to all federal funding awarded after October 1, 2010. FFATA requirements are considered met when loan, contract, and set-aside activity has been reported to www.fsr.gov in an amount equivalent to the full capitalization grant. EPA thanks RIIB for providing copies of submitted FFATA reports. Satisfied FFATA reporting amounts as of June 30th, 2022, are shown in Table 5. FFATA Requirements

Table 5. FFATA Requirements

Grant	Required Amount	Already Reported	Left to be Reported
2021	\$11,100,000	\$11,100,000	\$0

d. *Additional Subsidy Requirements*

EPA would like to commend the State on providing detailed disbursement information on additional subsidy on projects that were counted towards the 2018, 2019, 2020, and 2021 capitalization grants as of 6/30/22. The additional subsidy should be committed in executed loan agreements by the end of the fiscal year by the end of the federal fiscal year following the appropriations year. The additional subsidy requirement is considered met when the minimum subsidy funds have been disbursed. As of 6/30/22, the 2018, 2019, 2020, and 2021 additional subsidy requirements have not been met. See Table 6 below for more information.

Table 6. Additional Subsidy Disbursements for Open Grants

Grant	Requirement	Committed as of 6/30/22	Disbursed as of 6/30/22
2018	\$2,221,400 (approps) Up to \$5,553,500 (DACs)	\$2,221,400 (OWSRF)	\$2,008,956
2019	Minimum - \$2,861,040, \$660,240 MUST be to DACs Maximum - \$6,052,200 (approps + DACs)	\$2,861,040 total \$2,200,800 approps \$660,240 DAC	\$1,013,366 total \$431,180 approps \$582,186 DAC
2020	Minimum - \$2,202,200, \$660,660 MUST be to DACs Maximum - \$5,395,390	\$671,966 total \$343,957 DAC \$328,009 approps	\$49,133 total \$0 DAC \$49,133 approps
2021	Minimum – \$2,220,000, \$666,000 MUST be to DACs Maximum – \$5,439,000	\$18,018 total \$13,860 approps \$4,158 DAC	\$8,730 total \$4,572 approps \$4,158 DAC

Action Item: The 2023 Annual Report must contain an explanation of the reasons for the delay in the 2020 and 2021 additional subsidy commitment into loan executions and provide a plan that identifies the project(s) that will use the remaining subsidy funds, along with milestones for each project showing the path to an executed agreement. If the subsidy commitment is met prior to 9/30/23, please notify EPA Region 1 at that time. The IUP for the 2023 capitalization grant should indicate any additional subsidy from previous years that still must be committed to projects.

e. Small System Requirement

In early 2014, an established understanding of the small systems requirement was reinterpreted by EPA HQ. Previously in Region 1, the understanding of the requirement was that the minimum dollar amount required to go to systems serving a population under 10,000 (to the extent practicable) was calculated to be 15% of the capitalization grants. With clarification from EPA HQ, the requirement was defined as 15% of the total amount available for assistance from the Fund. The total amount available for assistance is provided by the state in their intended us plan.

This requirement was further discussed in a Q&A document sent out by EPA HQ in December 2015. States must calculate the obligation of the small systems requirement once per year during the IUP development. The calculation is based on all funds the state plans to make available for assistance agreements as described in the state's IUP sources and uses table.

The RIIB and RI DOH continue to work towards increasing DWSRF funding for small systems. Through the set-asides, RI Health funded two contracts with a consulting engineering firm to assist small systems in identifying their infrastructure needs, provide engineering plan

development for their engineering applications for RIDOH approval, assist them through the approval process for SRF funded projects, and explain the SRF funding process. Additional subsidy is also being targeted towards small systems to make the projects more affordable. The RIIB and RI DOH are also getting involved with small systems during their planning process to help these systems get to the loan execution stage.

In FY22, RI funded 2 small system loans totaling about \$1.3 million accounting for 6.5% of the loans executed. Although the state funded fewer small systems and did not meet the small systems requirement this year, EPA Region 1 is encouraged by the state's plans in place to reach out to more small systems in the upcoming years and the use of set-asides to help create a pipeline of small systems projects.

f. Set-Aside Summary

During SFY22, set-aside activities have followed the approved workplans that the RI DOH submitted as part of their 2021 capitalization grant application. As a reminder, the state must send copies of any new contracts funded through the set-asides to EPA Region 1 project officer.

The RI DWSRF program has implemented several innovative programs through the set-asides. Under the 15% local assistance set-aside, RI DOH contracted with RCAP to provide financial planning training to small systems who receive additional subsidy and be able to identify areas that the system needs help the most. Under the 2% small systems technical assistance set-aside, RI DOH contracted with Northeast Water Solutions to provide engineering assistance to small systems to help them develop engineering plans for project development.

g. Justice40

In January 2021, Executive Order 14008 – Tackling the Climate Crisis at Home and Abroad announced Justice40, which mandates that at least 40% of the benefits of certain federal programs must flow to disadvantaged communities. In July 2021, EPA received Interim Guidance to support implementation of Justice40. This guidance included six EPA programs as part of the Justice40 pilot including the DWSRF. Table 7 below provides the reported number and dollar amount of assistance agreements that went to disadvantaged communities.

Table 7. Hardship or Disadvantaged Community Funding

	SFY 2022	Cumulative as of 6/30/22
<i>Number of Agreements¹⁵</i>	0	1
<i>Dollar Amount¹⁶</i>	\$361,975	\$278,777,965
<i>Additional Subsidy to DACs¹⁷</i>	\$361,975	\$15,487,124

The America's Water Infrastructure Act of 2018, Section 2015(c), requires states to use at least 6 percent but no more than 35 percent of the capitalization grant amount for additional subsidy for state-defined Disadvantaged Communities. This requirement pertains to capitalization grants

¹⁵ NIMS lines 187 and 188, respectively.

¹⁶ NIMS lines 189 and 190, respectively.

¹⁷ NIMS lines 191 and 192, respectively.

awarded by EPA to states after October 23, 2018. For RI, this starts with the 2019 capitalization grant which was awarded during SFY2020.

The NIMS data is not accurately reflecting the information that the state is providing through the Annual Report nor the information included in the OWSRF EPA Data System.

Action Item: Update the RI DW NIMS data during the 2023 open period to reflect the funding and additional subsidy given to disadvantaged communities or provide an explanation for the figures in SFY2022. Notify the project officer that the changes were made no later than September 1st, 2023.

The state updated their disadvantaged community definition to a tiered approach which now also reflects the same definition as affordability for the RI CWSRF program. The state provides funding for RCAP to conduct income surveys for any water system that does not have census data available to be able to show they meet the DAC definition. RIIB and RI DOH successfully reach out to disadvantaged communities to make them aware of the DWSRF program and potential BIL funding that is available.

h. Climate Resiliency

RIIB discusses resiliency and climate when meeting with communities on potential projects. RI DOH is looking to hire a position which would focus on promoting resiliency within the DWSRF. RI DOH is considering adding priority points in the future for projects that incorporate resiliency or climate change mitigation related aspects, and they currently provide points for green project reserve elements even though it is not currently required for the DWSRF.

i. Capitalization Grant Closeouts

Table 8. Open Capitalization Grants and Requirements Met

Grant	FFATA Reporting	Subsidy Commitments	Final Financial Status Report (FSR) Submitted
2015	Yes	Yes	Yes
2016	Yes	Yes	Yes
2018	Yes	Yes	No
2019	Yes	Yes	No
2020	Yes	No	No
2021	Yes	No	No

For the 2015 and 2016 grants, the project officer will work with the grants specialist to get these grants closed out in the next few months since EPA has all the closeout documentation. For 2018 and onward EPA will wait for the state to fully draw down the grants, provide closeout documentation, and meet the additional subsidy commitments before closing out the grants.

V. CONCLUSIONS

Overall, the state is implementing a well-organized, well-managed, efficient and effective DWSRF program. EPA commends the RIIB and RI DOH staff for working diligently to meet their commitments under the base program. The state's goals of addressing risks to public health through the development and implementation of the DWSRF Program appear to have been met while running the program in accordance with pertinent 2 CFR Part 200 administrative requirements for grants to state and local governments.

While the state continues to run a good DWSRF program, EPA is very concerned with the lack of staffing at RI DOH, particularly with the BIL funding that the state received in 2022 and will continue to receive over the next 4 years. BIL provides a rare and unique opportunity to support public health protection with an emphasis on emerging contaminants and lead service line replacement. This opportunity will only be a success if there is adequate staffing to run the DWSRF program.

Beginning in 2022, Congress provided funding to Congressionally Directed Spending (CDS) grants and took that funding off the top of the national SRF allotments. This drastically reduced the state's 2022 base DWSRF capitalization grant and subsequently the amount that the state can take for set-asides. RIIB and RI DOH have been taking the full 4% administration set-aside plus an additional 2% in previously banked set-aside funds for the past few years. EPA Region 1 is concerned that with the reduction of the base grant that the state will soon be outpacing the amount that they have available for administrative costs.

Action Item: Rhode Island Infrastructure Bank and Rhode Island Department of Health should assess their future set-aside spending plan as the state has become reliant on the use of banked set-aside credits and the state's allotment for base capitalization grants has been reduced over the years, impacting future set-aside sustainability; both state agencies should implement a plan to find additional sources of revenue to bolster future set-aside sustainability

a. Follow Up from Last Year's PER

1. Update the RI DW NIMS data during the 2022 open period to reflect the subsidy given to disadvantaged communities or provide an explanation for the figures in SFY2021. **This is a repeat finding.**

Status: **Not completed.** The additional subsidy information in NIMS for years 2014-2021 is still inaccurate. This also ties into action item #11 below. EPA HQ now oversees the NIMS reporting so they will be the contact to update the NIMS data.

RIIB Response – RIIB will work on updating this.

2. Update the RI DW NIMS data during the 2023 open period or before to reflect the subsidy given to disadvantaged communities or provide an explanation for the figures in SFY2021. **This is a repeat finding.**

Status: **Not completed.** The additional subsidy information in NIMS for years 2014-2021 is still inaccurate. This also ties into action items #4 & #5 below.

RIIB Response – RIIB will work on updating this.

3. The 2022 Annual Report must contain an explanation of the reasons for the delay in the 2020 additional subsidy commitment into loan executions and provide a plan that identifies the project(s) that will use the remaining subsidy funds, along with milestones for each project showing the path to an executed agreement. If the subsidy commitment

is met prior to 9/30/22, please notify EPA Region 1 at that time. The IUP for the 2022 capitalization grant should indicate any additional subsidy from previous years that still must be committed to projects.

Status: **Completed.** The 2022 annual report included information on additional subsidy for the 2020 grant however the subsidy commitments have still not been met. This also ties in action item #10 below.

b. Action Items and Recommendations for this Year's Review

4. Update the RI DW NIMS data during the 2023 open period to reflect the number of assistance agreements receiving additional subsidy or provide an explanation for the figures in SFY2022. The annual report included information about project receiving additional subsidy but the NIMS data is still incorrect. **This is a repeat finding.** RIIB will notify the project officer that the updates were completed by September 1st, 2023.
RIIB Response – RIIB will work on updating this.
5. Update the RI DW NIMS data during the 2023 open period to reflect the amount of additional subsidy given to assistance recipients in years 2014 – 2022. **This is a repeat finding.** RIIB will notify the project officer that the updates were completed by September 1st, 2023.
RIIB Response – RIIB will work on updating this.
6. Revise policies and procedures relating to the utilization of the FIFO method in closing out older capitalization grants as RI DWSRF still has outstanding balances on the 2018 and 2019 capitalization grants as specific projects have been tied to specific capitalization grants, delaying older capitalization grant close out.
RIIB Response – RIIB is working on revising policies and procedures related to this to be in compliance with the FIFO method.
7. For all construction projects moving forward, include the DOL wage rates into the construction contract.
RI DOH Response - The language on the page for the bid specifications has been changed to make it clear that they must include the actual prevailing wages in place at the time of the bid.
8. The 2023 Annual Report must contain an explanation of the reasons for the delay in the 2020 and 2021 additional subsidy commitment into loan executions and provide a plan that identifies the project(s) that will use the remaining subsidy funds, along with milestones for each project showing the path to an executed agreement. If the subsidy commitment is met prior to 9/30/23, please notify EPA Region 1 at that time. The IUP for the 2023 capitalization grant should indicate any additional subsidy from previous years that still must be committed to projects.
RIIB Response - RIIB will provide an explanation in the 2023 Annual Report. RIIB will also indicate in the 2023 IUP capitalization grant additional subsidy from previous years that still must be submitted to projects.
9. Update the RI DW NIMS data during the 2023 open period to reflect the funding and additional subsidy given to disadvantaged communities or provide an explanation for the figures in SFY2022. Notify the project officer that the changes were made no later than September 1st, 2023.
RIIB Response – RIIB will work on updating the RI DW NIMS data.

10. Rhode Island Infrastructure Bank and Rhode Island Department of Health should assess their future set-aside spending plan as the state has become reliant on the use of banked set-aside credits and the state's allotment for base capitalization grants has been reduced over the years, impacting future set-aside sustainability; both state agencies should implement a plan to find additional sources of revenue to bolster future set-aside sustainability

VI. ANNUAL REVIEW PARTICIPANTS

Table 9. List of Annual Review Participants

Name and Affiliation	Role/Responsibility	Participation			
		Entrance	Program Interview	Financial Interview	Exit
EPA Region 1					
Mark Spinale	Manager	X			X
Sarah Connors	Project Officer	X			X
Carrie Garau	Financial Analyst	X		X	X
Lucy Lao	Financial Analyst	X		X	X
Katie Marrese	Project Officer	X			X
Brendan Mcinerney	Financial Analyst	X		X	X
Noah Mohl	Financial Analyst	X		X	X
Michael Silano	Project Reviewer	X			X
Patti Stelmaszczyk	Project Reviewer	X			
Jason Turgeon	Project Reviewer	X			
Rhode Island Department of Health (RI DOH)					
Amy Parmenter	DW Administrator	X	X		X
Carlene Newman	Environmental Engineer III	X	X		X
Jack Sahlin	Environmental Engineer II				
Edward Stenovitch	Environmental Engineer	X			X
Brenda Cheaye	Operator Certification and Capacity Development	X			X
Grace Clancy	Administrative Officer		X		
Rhode Island Department of Environmental					

**Management (RI
DEM)**

<i>Sue Kiernen</i>	Deputy Administrator	X			X
<i>Jenny Paquet</i>	Supervising Environmental Planner	X			X
<i>Tom Saccoccio</i>	Environmental Engineering Associate	X			X

**Rhode Island
Infrastructure Bank
(RIIB)**

<i>Jeff Diehl</i>	Executive Director and Chief Executive Officer	X			X
<i>Eileen Rose</i>	Chief Financial Officer and Chief Operating Officers	X		X	X
<i>Anna Coelho Cortes</i>	Deputy Managing Director	X		X	X
<i>Lilit Rose</i>	Transaction and Compliance Analyst	X		X	X
<i>Ken Viera</i>	Director, Controller	X		X	X
<i>Marcelina Jackson</i>	Program Operations Associate	X		X	X
<i>Julia Frantz</i>	Financial Analyst	X		X	X
<i>Sydney Usatine</i>	Senior Business Development Analyst	X		X	X
<i>Kim Koriath</i>	Stormwater and Resilience Analyst	X			X
<i>Bill Fazioli</i>	Managing Director, Program and Business Development	X		X	X